Supreme Court of the United States

OCTOBER TERM, 1947.

Nos. 405, 406, 407.

IN THE MATTER

of

REALTY ASSOCIATES SECURITIES CORPORATION,
Debtor.

MANUFACTURERS TRUST COMPANY, Indenture Trustee,
Petitioner,

vs.

REALTY ASSOCIATES SECURITIES CORPORATION and CONSOLIDATED REALTY CORPORATION,
Respondents.

EDWIN B. MEREDITH, JACOB R. SCHIFF and MILTON C. ZAIDENBERG, as Members of the Bondholders' Protective Committee,
Petitioners,

vs.

REALTY ASSOCIATES SECURITIES CORPORATION and CONSOLIDATED REALTY CORPORATION,
Respondents.

VANNECK REALTY CORPORATION,
Petitioner,

vs.

REALTY ASSOCIATES SECURITIES CORPORATION and CONSOLIDATED REALTY CORPORATION,
Respondents.

ON PETITIONS FOR WRITS OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT.

Supreme Court, U.S.
FILED
NOV 18 1947
CHARLES ELMORE CROPLEY
CLERK

BRIEF IN OPPOSITION TO PETITIONS FOR WRITS OF CERTIORARI.

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BRIEF IN OPPOSITION TO PETITIONS FOR WRITS OF CERTIORARI.

Statement by the Solicitor General.

The respondent Consolidated Realty Corporation is a corporation all of whose stock is owned by Reconstruction Finance Corporation. Consolidated, in turn, now owns all of the stock of Realty Associates Security Corporation.

The Securities and Exchange Commission is a statutory party to the case, pursuant to 11 U. S. C. Section 608. The Commission has taken a position contrary to that of the Reconstruction Finance Corporation. In view of the conflicting positions of the two governmental agencies, I am authorizing each to present a brief in its own name. *Cf. Consolidated Realty Corp.* v. *Meredith, et al.*, 323 U. S. 758.

PHILIP B. PERLMAN,
Solicitor General.

Preliminary Statement.

This brief is submitted on behalf of Realty Associates Securities Corporation (the Debtor) and Consolidated Realty Corporation (sole stockholder of the Debtor) in opposition to three petitions for writs of certiorari filed by the Bondholders' Protective Committee, Manufacturers Trust Company, and Vanneck Realty Corporation to review the judgment of the United States Circuit Court of Appeals for the Second Circuit, entered on July 23, 1947. Such judgment modified an order of the United States District Court for the Eastern District of New York, entered on August 5, 1946 in the reorganization proceeding of the Debtor under Chapter X of the Bankruptcy Act.*

Opinions Below.

The opinion of the Circuit Court of Appeals (R. 209-219) is reported at 163 F. (2d) 387. The opinion of the District Court (R. 171-181) is reported at 66 F. Supp. 416.

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* The three petitions and briefs of the petitioners are referred to herein as "Committee Petition", "Manufacturers Petition" and "Vanneck Petition". The Securities and Exchange Commission has also filed a brief in this matter which is herein referred to as the "SEC Brief".

Jurisdiction.

The petitioners have invoked the jurisdiction of this Court under Section 24(c) of the Bankruptcy Act (11 U. S. C. §47(c)) and under Section 240(a) of the Judicial Code (28 U. S. C., §347(a)).

Statement of the Case.

On September 28, 1943, when the Debtor filed its petition for reorganization under Chapter X, the Debtor was not in default in any way. On the maturity date of its bonds (October 1, 1943) the stay provided pursuant to Chapter X suspended the Debtor's obligation of prompt payment of the principal of the bonds and of interest thereon which had accrued prior to the Chapter X petition but which did not become due until after the petition.

The Debtor remained in reorganization until April, 1945, when it became possible to pay its bondholders. At that time, the respondents did not deny that interest had continued to run on the Debtor's bonds during the period of the proceeding; the bondholders were paid all of the unpaid principal of their bonds, all of the unpaid pre-maturity interest which had become due during the proceeding, and interest at the 5% contract rate on the principal of the bonds for the entire post-maturity period down to the date of actual payment. The bondholders contended, however, that they were entitled to added compensation for the delay occasioned by the Chapter X proceeding; they claimed that they were entitled to the legal rate of interest, which is greater than the applicable contract rate, and to interest on the pre-maturity interest which became due and payable during the proceeding, but which was not paid on its due date because of the pending proceeding.

The respondents have contested the bondholders' asserted right to such added compensation.

Questions Presented.

The petitions present the following questions:

1. If bonds provide that interest shall be paid after their maturity date at the rate of 5% and the bonds mature during a Chapter X proceeding, is interest on such bonds after maturity to be computed at the 5% contract rate or the 6% legal rate?

2. If bonds contain no provision for the payment of interest on unpaid interest, and such bonds mature on a date during a Chapter X proceeding, at which maturity date all accumulated, accrued interest becomes payable, is interest payable on the accumulated interest from the date the accumulated interest was payable until it is paid?

The Court below held (1) that interest ran throughout the proceeding, both before and after maturity, at the 5% contract rate; and (2) that no interest was payable upon the accumulated interest which became due and payable during the Chapter X proceeding.

Reasons for Denying the Writs.

The respondents submit that, as to both questions, none of the petitions raises any question which warrants review by this Court, for the following reasons:

1. The sole basis for the petitioners' assertion that they are entitled to the legal rate of interest and to interest on interest is an alleged "judgment theory", which presents no problem of importance, because such theory is opposed by:

(a) The decision of this Court in *Vanston Bondholders Protective Committee* v. *Green,* 329 U. S. 156 (1946), reh. den. 329 U. S. 833 (1947);

(b) The uniform practice of this Court and other federal courts in the computation of claims in Chapter X, Section 77B and Section 77 proceedings;

(c) The absence, not only of any conflict in the Circuit Courts of Appeal, but also of any bankruptcy, Chapter X, Section 77B or Section 77 case supporting the petitioners' "judgment theory";

(d) The purpose of Chapter X.

2. The petitions present no question regarding any provision of the Bankruptcy Act and the Circuit Court's decision is in complete harmony with the purpose of Chapter X.

3. The petitioners' assertion that the Court below has not properly construed the contract as to the post-maturity interest rate does not present a question of a character calling for decision by this Court.

Argument.

1. The "judgment theory" asserted by the petitioners raises no question for review by this Court.

The petitioners argue that, irrespective of the bondholders' rights under their contract, they had a right to the 6% legal rate after maturity both on the principal and on the accrued pre-maturity interest. The petitioners assert that there is a rule of law, applicable in Chapter X proceedings, which cuts across the provisions of the contract and entitles bondholders to the legal rate of interest after maturity (despite the contract specification of a lower rate) and also entitles them to interest on interest which became due during the proceeding but which was not paid on its due date.

The rule of law asserted by the petitioners is that an allowed creditor's claim in a Chapter X proceeding is, in effect, a "judgment" for the entire amount of the claim (*i.e.*, principal and all interest accrued before the Chapter X petition) which "judgment" bears interest at the legal rate from the date of the Chapter X petition or, in any case, from the date when the claim became payable by its terms. A variant of this theory is the petitioners' contention that the bondholders have sustained a "loss" as a result of the delay in collecting upon their bonds as each bondholder could, in the absence of the Chapter X proceeding, have obtained a judgment at maturity (October 1, 1943) for the principal amount of his bond and for all the accumulated interest which then became due. Each such judgment would have borne interest at the legal rate from the time it was entered and the bondholders assert that they are equitably entitled to be placed in as good a position as if the Chapter X proceeding had not stayed their immediate remedies.

The Court below decided that there is no such rule of law as the petitioners urge. Such decision is in accord with all of the pertinent decisions of this Court and the other federal courts and does not warrant review. There is no provision in Chapter X (or in any other part of the Bankruptcy Act) embodying such rule of law or in any way in conflict with the Circuit Court's decision. Not a single reorganization case has been cited by the petitioners in which the "judgment theory" has been adopted to produce the results they urge here. The uniform practice of the Courts, in computing claims in reorganization proceedings, stands opposed to the "judgment theory". And the recent decision of this Court in the *Vanston* case (*supra*, p. 4) is directly opposed to the petitioners.

A. The petitioners' "judgment theory" is directly opposed by this Court's decision in *Vanston Bondholders Protective Committee* v. *Green*.

The decision of this Court in *Vanston Bondholders Protective Committee* v. *Green* (*supra*, p. 4) is squarely opposed to the petitioners' "judgment theory" and leaves no question that a review of this case is unwarranted as to either the rate of interest question or the interest-on-interest question.

The facts of the *Vanston* case can be summarized as follows:

The equity receivership of Inland Gas Corporation began on December 2, 1930. No interest coupons on the Inland bonds were in default at that time, but default was later made in payment of the February 1, 1931 semi-annual interest coupon, which included interest accrued in respect of the four months before the start of the equity receivership. On April 3, 1931, the Indenture Trustee for the Inland bonds declared the entire principal immediately due and payable. In 1935 a creditors' petition for reorganization of Inland under Section 77B was approved, and at a later date the reorganization was continued as a Chapter X proceeding.

In 1938 the principal of the Inland bonds matured by their terms and remained unpaid. In 1943 a bondholders' committee petitioned for a cash distribution on the Inland bonds, and the Chapter X trustee asked the District Court whether the Inland bondholders were entitled to interest on their interest coupons from their due dates to the date of payment as expressly provided in the Inland indenture. The February 1, 1931 and all of the subsequently maturing interest coupons to and including the normal maturity date of the bonds in 1938 had remained unpaid. The security for the Inland bonds was adequate

to cover principal, the unpaid interest coupons, and interest on the principal and such coupons. It was conceded "that the first mortgage bondholders should receive simple interest on the principal due them", but there was a challenge to the Inland bondholders' "right to be paid interest on interest which fell due after the court took charge of Inland and which interest the Court * * * directed the receiver not to pay on the due date"*; as pointed out above, the interest on which interest was claimed included four months' interest which had accrued prior to the date of the equity receivership and several years' interest which had accrued and become payable prior to the Section 77B proceeding.

This Court (speaking through Mr. Justice Black) said that, when Inland went into receivership, the "obligation to make prompt payment of simple interest coupons was suspended," and pointed out that the "extra interest covenant may be deemed added compensation for the creditor, or, what is more likely, something like a penalty to induce prompt payment of simple interest."** This Court rejected the claim for interest on interest, holding that "legal suspension of an obligation to pay is an adequate reason why no added compensation or penalty should be enforced for failure to pay."***

The facts which were before this Court in the *Vanston* case are, in every material respect, identical with the facts in this *Realty Associates* case. The result in the *Vanston* case demonstrates that creditors are not entitled to be treated, under the circumstances of this *Realty Associates*

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* 329 U. S. at 159. The Record on Appeal in the *Vanston* case shows that the stay in the equity receivership was not materially different from the Chapter X stay in this *Realty Associates* case.

** 329 U. S. at 166.

*** 329 U. S. at 166-167.

case, as if they had obtained "judgments"; it demonstrates that the Court below was entirely correct in rejecting the petitioners' claim to such treatment. The holding in the *Vanston* case, although directed only to the interest-on-interest question, is equally opposed to the petitioners' contention that the allowance of a claim in a bankruptcy or Chapter X proceeding is a "judgment" for the purpose of raising the rate of interest.

If the petitioners' "judgment theory" were the law, the Inland bondholders would have been entitled to be treated as if they had obtained a "judgment" (for principal and all accrued interest) at the start of the equity receivership in 1930, or (if the "judgment theory" is mandatory under the Bankruptcy Act) at the start of the 77B proceeding in 1935. But the Inland bondholders were not treated as if they had obtained a judgment at either of these times. The petitioners' theory that a claim is "judgment" as of the date of the petition, when tested against the *Vanston* decision, is wrong.

But for the stay of the reorganization proceeding, the Inland bondholders could, at the normal maturity of their bonds in 1938, have sued for judgments for principal and all of the interest which had become payable between 1930 and 1938 and collected legal interest on such judgment. But this Court denied the Inland bondholders any interest at all on the long overdue interest. This Court refused to accord to the Inland bondholders any "judgment rights" either as of the date of the receivership or the Section 77B proceeding, or as of the "normal maturity" date of their bonds, which the petitioners in this *Realty Associates* case contend is required both by statute and judicial precedent.

The petitioners argue that this Court's refusal to give effect to a contract provision for the payment of interest on interest in the *Vanston* case warrants disregard of the

contract in this *Realty Associates* case. Their argument ignores the reasoning in the *Vanston* case. The reason that this Court refused to enforce a contract right to interest on interest was that the delay in payment was essential to administration of the debtor's estate for the benefit of all parties — secured creditors, unsecured creditors and the debtor. It is patent that this reason for disregarding a contract so as to deny interest on interest does not warrant the allowance of such interest when not contracted for or the increase of the contract rate of interest to the legal rate. Because the equitable powers of a Bankruptcy Court may be used to deny recognition of a right under a contract to "added compensation" does not mean that such powers are to be used to grant such a right when it does not exist either under the contract or applicable State law.

The petitioners assert that the *Vanston* case is distinguishable from this *Realty Associates* case because the former involved conflicting equities of two classes of creditors, whereas in this case the conflict is between creditors and the Debtor.* The *Vanston* opinion shows that such difference, if it existed, would be immaterial. The Inland bondholders' security was sufficient to pay them in full (including interest on interest) and they had undisputed priority over the subordinate creditors participating in the reorganization. The Inland bondholders were as fully entitled to "absolute priority" over the unsecured creditors in that proceeding as the *Realty Associates* bondholders are to "absolute priority" over the stockholders; the Inland bondholders had a right to be compensated for every cent of interest which was legally owing to them even if this left nothing for junior creditors. *Consolidated Rock Products Co.* v. *DuBois,* 312 U. S. 510, 527 (1941); *Group of Institu-*

* SEC Brief, pp. 14-16; Committee Petition, p. 9; Manufacturers Petition 25, 34-35.

tional Investors v. *Chicago, Milwaukee, St. Paul & Pacific Railroad Co.*, 318 U. S. 523, 546 (1943). Every equitable consideration in favor of a creditor against a stockholder is equally applicable in favor of a fully secured creditor against a junior creditor. And the *Vanston* decision shows that the "absolute priority" of senior parties over junior parties in a reorganization does not extend to "judgment rights".

Further, the denial of the petition for rehearing by this Court in the *Vanston* case shows that the factual distinction which the petitioners assert does not exist. It was pointed out to the Court in such petition that the facts warranted the conclusion "that there are now assets sufficient, if its [the Court's] decision stands, to make a payment on the stock of the Debtor".* Despite such a showing, this Court denied the petition for rehearing, confirming the conclusion to be derived from its original opinion that it did not intend to limit the denial of interest-on-interest to cases involving insolvent debtors.

The petitioners also try to escape the rule of the *Vanston* case on the ground that the interest on which interest was sought had accrued in the *Vanston* case during the reorganization proceeding, whereas substantially all the interest in this *Realty Associates* case accrued (although it did not become due) prior to the reorganization proceeding.** But as pointed out above (pp. 7-8), a large part of the interest in the *Vanston* case had accrued and become payable prior to the statutory reorganization proceeding under Section 77B and Chapter X; and four months' interest represented by the February 1, 1931 coupon accrued prior to

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* Page 3 of the Petition for Rehearing in the *Vanston* case filed January 3, 1947.

** SEC Brief, pp. 14-16; Committee Petition, p. 9; Manufacturers Petition, p. 13.

the original equity receivership although such interest, like the accumulated interest in this *Realty Associates* case, did not become payable until after the proceeding had started.

Further, the petitioners' argument ignores the reasoning of this Court in the *Vanston* case which demonstrates that the crux of the matter is not the period in respect of which the interest accrued, but the time when it fell due and the reason it was not paid when due. If the reason was that a Chapter X proceeding was pending (legally suspending payment of the interest on the due date), then, under the *Vanston* case, interest is not allowed for the delay in the payment. That was true in the *Vanston* case and is equally true in this *Realty Associates* case.

The petitioners also assert this *Realty Associates* case differs from the *Vanston* case because the Chapter X petition here was a voluntary petition.* This attempted distinction, too, is without validity. Chapter X was made available by Congress to petitioning debtors as well as petitioning creditors. To hold that one rule of law is applicable if the petition is voluntary, and another rule if involuntary, would be unworkable and would negate the very purpose of Congress in permitting debtors to apply for relief.

The scope of the *Vanston* rule is shown by this Court's later decision in *Fleming* v. *Traphagen*, 329 U. S. 686 (1946) reh. den. 329 U. S. 832 (1947), in which the Court, on the authority of the *Vanston* case, reversed a holding of the Circuit Court of Appeals for the Seventh Circuit which had allowed interest upon interest.** The bonds in the *Fleming* case were fully secured; the income from the division of the debtor railroad securing the bonds exceeded the amount required for the payment of interest during the extended

* Committee Petition, p. 9; Manufacturers Petition, p. 52.

** 155 F. (2d) 889 (C. C. A. 7th 1946).

period of delay caused by the Section 77 proceeding; and the Circuit Court of Appeals had held that the applicable State law entitled the bondholders to interest on interest. This Court nevertheless reversed the lower court's allowance of such interest.

The respondents submit that the *Vanston* case is decisive of both of the questions here presented; that the rejection of the "judgment theory" by the court below was the only possible result consistent with the *Vanston* case; and that there is accordingly no occasion for the writs to issue.

B. The uniform practice of the courts, in computing claims in reorganization proceedings, is opposed to the "judgment theory".

In case after case, the District Courts, the Circuit Courts of Appeal and this Court, in computing the amount of creditors' claims to be paid or provided for in Chapter X and railroad reorganization plans, have proceeded in direct conflict with the petitioners' "judgment theory".

(i) Cases Relating to the Rate of Interest.

Before discussing the reorganization cases, the respondents wish to point out that the petitioners and the SEC are in error in assuming that their "judgment theory" is followed in straight bankruptcy. By making this assumption the petitioners are able to frame a question-begging issue for this Court of whether creditors' rights are less under Chapter X than in straight bankruptcy.* But the courts have not—even in straight bankruptcy— followed the "judgment theory" asserted by the petitioners.

The bankruptcy courts have, for example, in those cases in which interest after the petition was payable, given effect

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* SEC Brief, pp. 2, 7-12; Committee Petition, pp. 8, 16; Manufacturers Petition, p. 10; Vanneck Petition, p. 4.

to the contract as to the rate of interest payable for the period of the bankruptcy proceeding. In one of the principal bankruptcy cases establishing the doctrine that interest is to be paid on principal where a secured creditor's security is sufficient (or where the bankrupt is solvent), *Coder* v. *Arts*, 213 U. S. 223, 245 (1909), this Court affirmed a decision which had allowed the payment of interest during the period of bankruptcy at the contract rate *"in accordance with the terms of the note and mortgage"*.* See also 3 COLLIER, BANKRUPTCY (14th ed. 1941), pp. 1839, 1844, to the effect that, if a bankrupt proves to be solvent, interest will be allowed during the proceeding *"at the rate contracted for"* up to the date of payment. The petitioners' contention that the Circuit Court's decision in this *Realty Associates* case gives creditors "less substantive rights" in Chapter X than in straight bankruptcy is thus demonstrably incorrect as to the rate of interest point.

The Circuit Court, however, limited its rejection of the petitioners' "judgment theory" to reorganization cases (reserving decision on whether the "judgment theory" would warrant departure from the contract rate of interest in a straight bankruptcy case); as shown below, the reorganization precedents are uniformly consistent with the decision of the Circuit Court.

In the Section 77 case of *Ecker* v. *Western Pacific Railroad Corp.*, 318 U. S. 448 (1943), the computation of the claims set forth in the opinion of this Court demonstrates that claims are not treated as "judgments", but are to be computed (with respect to the period after, as well as before, the reorganization petition) in accordance with the provisions of the contract.

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* *Coder* v. *Arts*, 152 Fed. 943, at 950 (C. C. A. 8th 1907). Emphasis supplied throughout this brief, unless otherwise noted.

The *Western Pacific* reorganization began with the filing of the debtor's petition on August 2, 1935. Interest installments on the Western Pacific's First Mortgage Bonds had matured and remained unpaid for almost a year and a half before the start of the proceeding. If there were any validity to the "judgment theory", then the First Mortgage Bondholders should have been allowed interest after the date of the petition at the legal rate, and such allowance should have included legal interest not only on the principal, but also on all of the accrued interest which was due and unpaid at the date of the petition. But this was not done. Instead, the First Mortgage Bondholders' claim was allowed for the principal amount of the bonds plus "Accrued interest at contract rate to effective date of plan" on principal only (318 U. S. 448, at p. 455). Thus the interest was computed at the 5% rate provided for in the contract; it was not computed at the 6% legal rate which would have had to be applied if there were any such rule of law as the "judgment theory".

In *Brooks* v. *St. Louis-San Francisco Railway Co.*, 153 Fed. (2d) 312 (C. C. A. 8th 1946) cert. den. 328 U. S. 867 (1946), the argument was advanced to the Court that certain secured bondholders were not entitled to any interest from the time of the initiation of the reorganization proceedings. The Court quite properly held that the bondholders were entitled to such interest as a matter of right and that the rate of interest to which they were entitled was the contract rate. The Court said (p. 318):

> "Interest on secured claims to the effective date of the plan is entitled to the same priority as the principal. *Consolidated Rock Products Co.* v. *DuBois, supra; Ecker* v. *Western Pacific R. Corporation, supra; Case* v. *Los Angeles Lumber Products Co., supra; Louisville Joint Stock Land Bank* v. *Radford,*

> 295 U. S. 555, 55 S. Ct. 854, 79 L. Ed. 1593, 97 A. L. R. 1106; *American Iron & Steel Mfg. Co.* v. *Seaboard Air Line Railway*, 233 U. S. 261, 34 S. Ct. 502, 58 L. Ed. 949; *Group of Investors* v. *Milwaukee R. Co., supra.* The time as of which the claims of creditors should be computed was fixed as January 1, 1944 [the effective date of the plan of reorganization]. From that time the interest on the securities will be the new rate, *but up to that time it will be computed on the old securities at the contract rate.* This determination, we think, is reasonable and equitable and violative of no legal principle."

As shown in the appendix to this brief, in the computation of claims in numerous other railroad reorganizations in which various bond issues matured during the proceedings, the interest that was allowed for the period of the proceedings, both before and after the maturity of the bonds, was at the contract rate. *Chicago, Rock Island & Pacific Railway Reorganization*, 257 I. C. C. 307 (1944); 157 F. (2d) 241 (C. C. A. 7th 1946); *Missouri Pacific Railroad Reorganization*, 257 I. C. C. 479 (1944); 64 F. Supp. 64 (E. D. Mo. 1945); *Minneapolis, St. Paul & Sault Ste. Marie Railway Company Reorganization*, 252 I. C. C. 525 (1942); 48 F. Supp. 330 (Minn. 1942); *Chicago, Milwaukee, St. Paul & Pacific Railroad Company Reorganization*, 254 I. C. C. 707 (1943); 145 Fed. (2d) 299 (C. C. A. 7th 1944).

This same practice has also been followed in Chapter X proceedings. For example, this was done in the reorganization proceeding relating to *McKesson & Robbins, Inc.* in the Southern District of New York. The computation of claims in this proceeding is shown by the report of the SEC on the proposed plan of reorganization* and the SEC took a position there totally inconsistent with the

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* 8 S. E. C. 853 (1941).

"judgment theory" as it approved of a plan that provided for the contract, not the legal rate of interest. The SEC said in its report (8 S. E. C. 853 at 876):

> "The plan provides that creditors shall receive all accrued interest in cash. The rate of interest on the several claims is the legal rate *where there is no contract rate.* Thus, with respect to the debentures (item 2) interest on principal and on overdue installments of interest is computed at the rate of 5½% *in accordance with the provisions of the indenture under which the debentures were issued.*"*

Another Chapter X example is *In re Adolf Gobel, Inc.* (Bankruptcy No. 79,526, S. D. N. Y., 1944), the relevant facts being set forth in the appendix to this brief; the plan, as approved and confirmed, provided for continuation of the 4½% contract rate of interest on debentures throughout the proceeding although the bonds had matured by their terms prior to the start of the proceeding.

The significance of this continued recognition of the contract rate of interest in these reorganization cases is clear. Allowed claims of senior creditors must include all interest to which they are entitled down to the effective date of the plan of reorganization if any junior interests are allowed to participate; otherwise the treatment accorded such senior creditors is not "fair and equitable." *Consolidated Rock Products Co.* v. *DuBois* (*supra*, p. 10); *Group of Institutional Investors* v. *Chicago, Milwaukee, St. Paul & Pacific Railroad Co.* (*supra*, pp. 10-11). If there were a rule of law such as the "judgment theory" entitling bondholders, irrespective of the provisions of their contract, to the legal rate

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* As the *McKesson* reorganization was consummated before this Court's decision in the *Vanston* case, an express contractual provision for interest on interest was given effect in accordance with the SEC's recommendation.

of interest from the date of the petition (or from the maturity of their bonds) then the reorganization plans in all of the above-discussed cases would, to the extent that junior interests were allowed to participate, violate the "absolute priority" rule as set out in the *Consolidated Rock Products* and *Milwaukee* cases. That the reorganization plans in these cases have been held to be "fair and equitable" demonstrates the absence of any rule of law such as the "judgment theory" which would entitle senior creditors to greater rights than they were accorded.

The petitioners and the SEC seek to avoid conflict with the above cited precedents and to justify their position in this *Realty Associates* case by saying that they would apply the "judgment theory" to change from the contract rate to the legal rate only as at the "normal" maturity date of the bonds and suggest that judgment rights in this respect are not to be extended to a creditor if his claim does not reach "normal" maturity during the pendency of the proceeding; in such case the petitioners and the SEC would give the creditor only contract interest throughout the proceeding.* The petitioners thus concede (after considerable argument that the "judgment" rights of creditors stem from Section 63(a)(1) of Bankruptcy Act "at the date of the petition"**) that the Act itself does not give a creditor "judgment rights" to the legal rate. The petitioners necessarily abandon their position that the statute makes "judgment rights" mandatory when they take the totally inconsistent position that there are no such rights until "normal maturity". And the petitioners ignore that, in the *Gobel* case (*supra*, p. 17), the bonds matured before the proceeding and in *Coder* v. *Arts* (*supra*, p. 14), and in

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* SEC Brief, p. 17, n. 19; Manufacturers Petition, p. 40n.; Vanneck Petition, pp. 6-7.

** SEC Brief, pp. 8-14.

the *Rock Island, Missouri Pacific, Minneapolis-St. Paul* and *Milwaukee* cases (*supra*, p. 16) the claims reached their "normal maturity date" during the proceedings and that the contract rates of interest were nevertheless applied to the period after maturity as well as before.

The SEC attempts to escape this dilemma by saying that some of the cases cited above involve claims whose "normal" maturity dates did not arrive until "well after" the petition for reorganization;* while the petitioners suggest that in this *Realty Associates* case the three-day interval between the filing of the petition and the due date of both the principal and the interest on the bonds is "inconsequential".** But Chapter X permits the filing of a petition in contemplation of an approaching maturity, and complete uncertainty would be introduced into Chapter X proceedings if the change from the contract rate to the legal rate were made dependent upon the length of the interval between the date of the petition and the maturity of the debt.

(ii) Cases Relating to Interest on Interest.

Despite the petitioners' assertions that their "judgment theory" is a well-established rule, they have not cited a single case under Chapter X or Section 77 or Section 77B requiring the payment of interest on interest accrued to or payable at the date of the petition. In fact, quite apart from the *Vanston* case, which is a square holding against the allowance of interest on interest in a Chapter X proceeding, the reorganization cases have not allowed interest on interest where, as here, there was no contract right to it. This Court, in *Ecker* v. *Western Pacific Railroad Corp.*, referred to above (pp. 14-15), had before it a claim which

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* SEC Brief, p. 17.

** Committee Petition, p. 4.

included bond interest installments matured and payable prior to the inception of the reorganization proceeding. The computation of the bondholders' claim did not include any interest on such interest.

In both the *Chicago, Rock Island and Pacific Railway Reorganization* (*supra,* p. 16), and the *Missouri Pacific Railroad Reorganization* (*supra,* p. 16), the bond issues matured during the proceeding and interest was in default for a period of years before the maturity date of the principal. In the computation of the claims of the holders of these bonds, no interest was allowed on such interest.* And in *In re Norcor Mfg. Co.,* 36 F. Supp. 978 (E. D. Wis. 1941) and *In re Wisconsin Central Railway Co.,* 63 F. Supp. 151 (D. Minn. 1945) creditors' claims for interest on interest were also denied. The same result was reached in *In re Adolf Gobel, Inc.* (Bankruptcy No. 79,526, S. D. N. Y. 1944).*

C. The cases cited by the petitioners do not support their theory and there is no conflict in any of the Circuit Courts of Appeals.

The cases cited by the petitioners do not support their theory. The Circuit Court (R. 214) rejected the application which the petitioners would make of *In re John Osborn's Sons & Co.,* 177 Fed. 184 (C. C. A. 2d 1910).** In the *Osborn* case, the Circuit Court did not have before it, as it did here, a case in which the application of the "judgment theory" would change the rate of interest from that provided for by the parties' agreement; and the *Osborn* case did not involve any question of interest on interest.

The SEC and the petitioners give the impression that in *Johnson* v. *Norris,* 190 Fed. 459 (C. C. A. 5th 1911) interest

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* Data showing the computation of claims in these cases is set forth in the appendix to this brief.

** Committee Petition, p. 16; Manufacturers Petition, p. 19; Vanneck Petition, p. 10; SEC Brief, p. 8.

was allowed on interest.* But this is not so. A study of the record of that case shows that the problem of interest on interest was not before the Court.** And a study of the opinion shows that, although the "judgment theory" was argued and the Court's attention was directed to the *Osborn* case and *National Bank of the Commonwealth* v. *Mechanics' National Bank,* 94 U. S. 437 (1876), the Court refused to base the allowance of simple interest on principal on any ground so mechanical as the "judgment theory", but instead based the allowance upon its general equitable powers. The Court also noted, contrary to the petitioners' position here, that there was nothing in the Bankruptcy Act relating to the problem of post-petition interest in bankruptcy proceedings. Thus, *Johnson* v. *Norris* does not present a "conflict" with the decision below, as contended by one of the petitioners***, but, like the decision below, actually rejected the "judgment theory".

The facts in the *Mechanics' National Bank* case (*supra*) make it apparent that it has no application to the *Realty*

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* The SEC Brief says (p. 9): "Thus, in *Johnson* v. *Norris,* 190 Fed. 459 (1911), the Fifth Circuit Court of Appeals ruled that interest was payable on claims which, as filed, included interest accrued prior to the date of the bankruptcy petition, before any part of a surplus held by the trustee could be turned over to the bankrupt."

** At page 10 of the Record on Appeal in *Johnson* v. *Norris* the question which had been certified by the Referee and which was before the Circuit Court is set forth as follows:

> "Are creditors who have been paid in full *the amount of claims* filed against the bankrupt estate, *together with interest thereon up to the date of the filing of the petition in bankruptcy,* also entitled to collect out of said estate *interest on their claims* from the date of the filing of the petition in said bankruptcy up to the time of payment in full of said claims?"

The language in the quotation shows that the word "claims" referred only to the principal of the debt and that the interest thereon prior to the date of the petition in bankruptcy was not included in the term.

*** Manufacturers Petition, pp. 30-31.

Associates situation. In the *Mechanics'* case, certain bank depositors demanded payment of their deposits on September 24, 1873, but the bank failed to pay. On November 22, 1873, the Comptroller of Currency appointed a receiver for the bank and such receiver made four different payments on account of principal owed to the bank's depositors. At the time of each such principal payment, demand was made by the depositors for the payment of interest thereon from September 24, 1873. Each of the four demands for interest was rejected by the receiver, the final rejection being at the time of the final principal payment on November 20, 1874. Suit was then brought by the depositors for the aggregate of all rejected interest claims and interest thereon from November 20, 1874, the date of the final rejection, and that is what the Court allowed. The Court did not treat the claimants as judgment creditors as of the start of the receivership, but held that the final rejection of the claims could, under those facts, be treated as a judgment.

The *Mechanics'* case would be apposite in this *Realty Associates* case only if District Judge Moscowitz, in computing the bondholders' claims in his order of April 2, 1945, dismissing the proceeding, had denied to the bondholders any interest on the principal of their bonds after maturity. If Judge Moscowitz had made such a determination, it would have been error, the reversal of which would have justified the reviewing court, on the authority of the *Mechanics'* case, in instructing the payment not only of the interest on principal which accrued during the proceeding, but also interest on that interest from and after April 2, 1945.

In re New York, New Haven & Hartford R. Co., 147 F. (2d) 40 (C. C. A. 2d 1945), cited by the petitioners,* in

* SEC Brief, pp. 15-16; Vanneck Petition, p. 9.

no way supports them. The question there presented was whether creditors who were almost fully secured at the start of the proceeding, but whose security became worthless during the Section 77 restraint on foreclosure, should be treated as unsecured creditors. As shown below (p. 27) the Realty Associates bondholders, unlike the *New Haven* secured creditors, have not in fact sustained any loss as a result of the proceeding; further, the application which the petitioners would make of the *New Haven* case would be in conflict with the *Vanston* case.

The other cases cited by the petitioners and the SEC are likewise inapposite. For example, *Bindseil* v. *Liberty Trust Co.*, 248 Fed. 112 (C. C. A. 3rd 1917)—cited in the Manufacturers Petition (p. 32) as presenting a "conflict" with the decision below—dealt only with the right of a mortgagee to have rents from property subject to the mortgage applied to the mortgage debt as against the claims of the bankrupt's general creditors. The case had nothing to do with any problem of the computation of interest.*

The petitioners and the SEC have not cited a single Chapter X, Section 77B, Section 77 or bankruptcy case in which the "judgment theory" or any other theory was given effect to apply the legal rate to the post-petition or post-maturity period in disregard of the applicable contract rate; and not one of their briefs refers to a single Circuit Court Chapter X, Section 77B, Section 77 or bankruptcy case which allowed interest on interest.**

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* The same is true of the other cases cited in the SEC Brief (p. 16, footnote 15) with the *Bindseil* case.

** Manufacturers Petition (pp. 12-13, 22n.) cites as authority for allowing interest on interest two recent unreported decisions in Chapter X proceedings in the Southern District of New York relating to *Childs Company* and *United States Realty & Improvement Company* (in neither of which there was an opinion). It is sufficient to say here that both such decisions were made prior to this Court's decision in the *Vanston* case.

D. The construction of the Bankruptcy Act is not involved and the "judgment theory" is contrary to the purpose of Chapter X.

Some of the petitioners urge that a construction of the Bankruptcy Act is involved and suggest that support for their view is to be found in Section 63(a)(1) of the Bankruptcy Act.* But it is this very section of the Bankruptcy Act which expressly cuts off the accrual of interest in bankruptcy at the date of the bankruptcy petition so that no interest runs during the proceeding.** So far as Section 63(a)(1) is concerned, interest stops as of the date of the petition; the bondholders cannot obtain any authority for their position from its provisions. In cases in which the bankrupt or debtor is solvent (or a secured creditor's security is sufficient) the courts have held that the obligation to pay interest "revives" (See 3 COLLIER, BANKRUPTCY, 14th Ed., p. 1838) and that interest runs on principal during the proceeding, but this is an equitable rule developed by the courts; it is not based on statute. Neither Section 63(a)(1) nor any other section is involved in the questions here presented.

The suggestion in the SEC Brief (p. 11) that the decision below creates problems under Section 238 (1) in the event that a Chapter X proceeding is converted into a straight bankruptcy liquidation is negated for two reasons: first, the SEC assumes, mistakenly as shown above (pp. 13-14), that in straight bankruptcy the bondholders would have been entitled under the "judgment theory" to the legal rate of interest and to interest on interest; second, conversions from Chapter X to straight bankruptcy occur in cases in which the debtor is insolvent and, in such cases,

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* 11 U. S. C. §103(a)(1).

** *Sexton* v. *Dreyfus*, 219 U. S. 339 (1911); 3 COLLIER, BANKRUPTCY (14th ed. 1941) p. 1835, *et seq.*

the creditors are denied, not only "judgment interest", but any post-petition interest at all. If the debtor is solvent or if secured claims are involved, the computation of interest, under the principles so recently reviewed by this Court in the *Vanston* case, would hardly present "difficulties" such as the SEC fears.

The application of petitioners' "judgment theory" would, moreover, contravene the purpose of Chapter X, which contemplates a continuation of the business of the debtor, a continuation of the contractual relationships between the debtor and its creditors, and a stay of the normal creditors' remedies until a plan of reorganization is evolved which is fair to all interested parties. As was aptly said by the SEC itself several years ago:*

> "Reorganization is not bankruptcy and becomes such only if an order of liquidation is entered. The estate is not a 'dead fund'; its status as a going concern is maintained until a plan of reorganization can be worked out. We submit that while the business continues as a living enterprise, substantial justice can be worked only by a rule which continues the contract rights of the parties so far as possible as they existed before the enterprise came under judicial control; that is, by the accrual of interest on the debts until the cut-off date under the plan."

To apply the "judgment theory" so as to disregard the contract between the debtor and its creditors and arbitrarily allow interest at the legal rate from the date of a Chapter X petition (or from the maturity date of bonds) and to allow interest on interest would be to deny to debtors the relief that Congress provided for them in Chapter X.

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* In the "Memorandum of the Securities and Exchange Commission, Supplementing its Advisory Report, in Support of Accrual of Interest During Reorganization Proceedings," which the SEC submitted to the Court in a Chapter X proceeding, *In re Minnesota and Ontario Paper Company*, 7 S. E. C. 456 (1940); S. E. C. Corporate Reorganization Release No. 33 (pp. 8-9) (August 1, 1940).

Interest upon a judgment is allowed as damages for unwarranted delay in payment. But Congress, by enacting Chapter X, has expressly authorized delay in the payment of a debt in certain cases—cases in which a petition is filed, in good faith, by a debtor unable to meet its debts as they mature. Such delay is authorized for the benefit and protection of creditors as well as the debtor, for all creditors might suffer if they were free to obtain judgments, levy executions and force the immediate sale of a debtor's assets at depressed values. Congress recognized that the interests of creditors and the debtor lay in the preservation of the business as a going concern and the orderly adjustment of the claims of creditors under the supervision of the Court in accordance with the principles laid down in the statute.

The bondholders in this *Realty Associates* case were stayed from bringing suit at the maturity of their bonds and thus forcing an immediate liquidation. But the necessity for such a stay, if the bondholders were to be paid in full and the purpose for which Congress enacted Chapter X thus achieved, is shown by the following statement of the District Court (in its unreported opinion deciding that the petition in this *Realty Associates* case was filed in good faith):

> "Now, of course, if this were not a procedure under Chapter X, if it went into bankruptcy and judgments piled up against the debtor on these bonds that become due on October 1st, and with the debtor here a straight bankrupt, it would wipe out these assets and the creditors would probably realize very little. It would be calamitous—yes, calamitous unless this corporation and the creditors who came first were afforded protection under the law, and I can think of no greater disservice by court or by counsel to creditors than not to give them the protection and benefit of this law."

Statements in the SEC Brief (pp. 3 and 16) regarding the Debtor's Chapter X petition give an erroneous impression that the Debtor sought relief under Chapter X solely to protect itself. As the petition shows, relief was sought "for the protection of creditors and stockholders" (R. 6-7) and, as the District Judge found when ruling upon the petition, the proceeding was filed in good faith and was necessary for the protection of creditors as well as the Debtor.

The bondholders were not damaged by the proceedings thus instituted for the benefit of all; under Chapter X, they realized their full claim with interest on principal to the date of payment, a result which (as pointed out by the District Court) would have been unlikely if the bondholders had been allowed to sue for and enforce judgments at the maturity of the bonds. Contrary to one petitioner's assertion that the Debtor realized "vast income" during the proceedings,* the earnings of the Debtor during the entire period of the Chapter X proceedings amounted to $302,216.35 (R. 144)—less than enough to pay the 5% contract rate of interest on principal which was paid to the bondholders. To now treat the bondholders as "judgment creditors" from the date of the petition (or from the maturity date of their bonds) so that they can obtain added compensation for the delay would be inconsistent with the provisions of Chapter X which authorized the delay for the benefit of all concerned.

Both the theory of Chapter X and the realties of this case dispose of the petitioners' argument that the bondholders have sustained any loss of "substantive rights" as a result of the decision below.

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* Manufacturers Petition, p. 4.

2. The construction of the contract by the Court below does not warrant review.

The Court below, having rejected the "judgment theory", held that the contract rate of interest ran during the proceedings and found that the contract here involved, when construed under the applicable New York law, provided for an interest rate of 5% after maturity. Such a decision does not call for review by this Court.

Article VI of the Debtor's 1933 Indenture provides that, upon the happening of various events of default (including the start of insolvency proceedings or non-payment at maturity) the moneys recovered by the Indenture Trustee in legal proceedings shall be applied to payment of principal and interest, *"with interest at the rate of five per cent. (5%) per annum on the overdue principal"* (R. 120). This provision leaves no doubt that the parties intended that the 5% rate should apply after a defaulted maturity date. The Circuit Court thus gave the contract the only construction which would be consistent with the intention of the parties.

The bondholders' contract with the Debtor does not provide for the payment of interest on interest; neither the 1933 Indenture nor the bonds provide for such payment. Thus the decision below is entirely consistent with the views expressed in the concurring opinion written by Mr. Justice Frankfurter in the *Vanston* case, as well as with the majority opinion in that case.

Even if the bondholders' contract expressly provided for interest on interest, it would appear from the applicable New York cases that the bondholders could not recover interest upon interest. The New York cases hold that, as a matter of law, interest is not payable upon interest.

Young v. *Hill*, 67 N. Y. 162 (1876); *Newburger-Morris Co.* v. *Talcott*, 219 N. Y. 505, 114 N. E. 846 (1916); *Continental Securities Company* v. *New York Central & H. R. R.*, 217 N. Y. 119, 111 N. E. 484 (1916); *Transbel Investment Co.* v. *Roth*, 36 F. Supp. 396 (S. D. N. Y., 1940).*

The opinion of the Court below shows, however, that its decision was not based on this New York policy against interest on interest as suggested by the SEC.** The Court rejected the claim to interest on interest on the authority of the *Vanston* case (R. 217), which is applicable with even greater force to the *Realty Associates* bonds which did not provide for interest on interest.

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* There is an exception, not material here, to such rule. If interest coupons have been negotiated separately from the bonds, interest on such coupons may be recovered. *Williamsburgh Savings Bank* v. *Solon*, 136 N. Y. 465, 32 N. E. 1058 (1893); *Long Island L. & T. Co.* v. *Long Island City & N. R. R. Co.*, 85 App. Div. 36 (2d Dept. 1903), aff'd 178 N. Y. 588 (1904).

** SEC Brief, p. 14.

Conclusion.

Each of the petitions for a writ of certiorari should be denied.

Dated, November 17, 1947.

Respectfully submitted,

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Appendix.

Data Showing Computation of Claims in Various Reorganization Cases Cited in the Foregoing Brief (pp. 16-17, 20).

1. *Chicago, Rock Island & Pacific Railway Company Reorganization,* 257 I. C. C. 307 (1944). The plan was approved by a District Court in 1945 and such approval was affirmed in 157 F. (2d) 241 (C. C. A. 7th, 1946). The reorganization petition was filed on June 7, 1933 and the effective date of the plan was January 1, 1944.

   (a) The claim of holders of *Rock Island, Arkansas & Louisiana First Mortgage 4½s, due 1934* was computed as follows:*

(i) Total claim of bondholders for principal (257 I. C. C. 318).....	$11,000,000
(ii) Total claim of bondholders allowed for interest (257 I. C. C. 339)	5,362,500
(iii) Total claim of bondholders for principal and interest as of January 1, 1944 (257 I. C. C. 318)....	$16,362,500

Interest was owing on these bonds from March 1, 1933 (see Moody's *Railroads,* 1943, p. 519) down to January 1, 1944 (the effective date of the plan), which is a period of 10 years and 10 months. 4½% interest on the $11,000,000 principal for 10 years and 10 months is precisely the amount of interest allowed in the claim..... $ 5,362,500

* The claim in this *Rock Island* proceeding of the holders of *The Chicago, Rock Island & Pacific First and Refunding Mortgage 4% bonds due 1934* was computed in the same manner as this issue (see 257 I. C. C. 318, 338). Details as to such claim are not given as they would merely be cumulative.

(b) The claim of holders of *Burlington, Cedar Rapids & Northern Consolidated First Mortgage 5s, due 1934* was computed as follows:

(i) Total claim of bondholders for principal (257 I. C. C. 318).....	$11,000,000
(ii) Total claim of bondholders allowed for interest (257 I. C. C. 339)	5,912,500
(iii) Total claim of bondholders for principal and interest as of January 1, 1944 (257 I. C. C. 318)....	$16,912,500
Interest was owing on these bonds from April 1, 1933 (see Moody's *Railroads,* 1943, p. 513) down to January 1, 1944 (the effective date of the plan), which is a period of 10 years and 9 months. 5% interest on the $11,000,000 principal for 10 years and 9 months is precisely the amount of interest allowed in the claim.....	$ 5,912,500

2. *Missouri Pacific Railroad Reorganization,* 257 I. C. C. 479 (1944). The plan was approved by the District Court in 64 F. Supp. 64 (E. D. Mo. 1945). The reorganization petition was filed in 1933 and the effective date of the plan was January 1, 1943.

The holder of each $1000 *Little Rock & Hot Springs Western First 4% Bond* which matured in 1939 was allowed for his interest claim (257 I. C. C. 569).....	$ 320
Interest was owing on these bonds from January 1, 1935 (see Moody's *Railroads,* 1944, p. 948) down to January 1, 1943 (the effective date of the plan)—a period of 8 years. Interest at the rate of 4% on $1000 for 8 years is	$ 320

3. *Minneapolis, St. Paul & Sault Ste. Marie Railway Company Reorganization,* 252 I. C. C. 525 (1942). The plan

was approved by the District Court in 1942, 48 F. Supp. 330 (Minn., 1942). The petition was filed in 1937 and the effective date of the plan was January 1, 1941.

The table of claims (252 I. C. C. 581) shows that the interest rates specified in the bonds were used in computing the "Amount of claim and interest to January 1, 1941" (the effective date of the plan). This is easily demonstrated by considering in such table the claim of the unguaranteed *First Consolidated Mortgage 5% Bonds* which matured on July 1, 1938:*

Principal of claim	$ 6,148,000
"Interest matured Jan. 1, 1938, to Jan. 1, 1941 inclusive" allowed in the claim	$ 1,075,900

It can be seen that the interest in the claim was for a period of 3½ years (the Jan. 1, 1938 coupon covered the 6 months back to July 1, 1937). One year of this 3½ years was prior to the maturity of the bonds and 2½ years were after maturity. 5% interest on the $6,148,000 principal for 3½ years is precisely the amount of interest allowed in the claim..... $ 1,075,900

4. *Chicago, Milwaukee, St. Paul & Pacific Railroad Company Reorganization,* 254 I. C. C. 707 (1943). Approved 58 F. Supp. 384 (N. D. Ill., 1944), appeals dismissed 145 F. (2d) 299 (C. C. A. 7th, 1944). The petition was filed in 1935 and the effective date of the plan was January 1, 1944.

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* As recited in the table, the contract rates of interest (4% as to some bonds and 5% as to others) were also used in computing the claim of the First Consolidated Mortgage bonds which were guaranteed as to interest by the Canadian Pacific Railway. Because of certain minor adjustments not here material, calculation of the interest on these bonds cannot be made solely from the figures furnished in the table at 352 I. C. C. 581.

(a) The claim of the holders of *Milwaukee & Northern First 4½% Bonds* which matured in 1939 was computed as follows:

(i) Total claim of bondholders for principal (254 I. C. C. 739)	$ 2,117,000
(ii) Total claim of bondholders allowed for interest from January 1, 1939 to January 1, 1944 (254 I. C. C. 713)	$ 476,325
Interest was owing on these bonds from January 1, 1939 to January 1, 1944 (the effective date of the plan), which is a period of 5 years. 4½% interest on the $2,117,000 principal for 5 years is precisely the amount of interest allowed in the claim*	$ 476,325

(b) The claim of the holders of *Milwaukee & Northern Consolidated 4½% Bonds* which matured in 1939 was computed as follows:

(i) Total claim of bondholders for principal (254 I. C. C. 739)	$ 5,072,000
(ii) Total claim of bondholders allowed for interest from January 1, 1939 to January 1, 1944 (254 I. C. C. 713)	$ 1,141,200
Interest was owing on these bonds from January 1, 1939 to January 1, 1944 (the effective date of the plan), which is a period of 5 years. 4½% interest on the $5,072,000 principal for 5 years is precisely the amount of interest allowed in the claim*	$ 1,141,200

* See, also, 254 I. C. C. 707, at p. 712, where the Commission says that the interest on these bonds for the period from January 1, 1939 to January 1, 1944 was to be paid in cash "*at the rates named in the bonds*".

5. *In re Adolf Gobel, Inc.* (Bankruptcy No. 79,526, S. D. N. Y.; plan approved on June 1, 1944 and confirmed on July 31, 1944, by Judge Coxe). The Chapter X petition was filed on September 29, 1941 and the effective date of the plan of reorganization was October 16, 1944.

The debtor had outstanding $1,081,000 principal amount of 4½% Convertible Debentures which had matured in normal course on May 1, 1941 (before the start of the Chapter X proceeding). At the start of the proceeding, interest for the five months' period after the maturity of the Debentures was also unpaid. The common stockholders' participation in the debtor was continued (without their putting up any funds). Public bondholders holding $358,000 principal amount of the Debentures, were paid in cash under the reorganization plan "the principal amount of the $358,000 of Old Debentures * * * with interest on said principal at the rate of 4½% per annum from May 1, 1941 to October 16, 1944." (See Judge Coxe's Order in Aid of Consummation of the Plan of Reorganization dated October 6, 1944, in the Court file in the proceeding.)*

* The remaining $723,000 principal amount of Debentures plus interest at 4½% to October 16, 1944 were surrendered for new securities.